

DETECTING MONEY LAUNDERING REAL CASE STUDIES WORKSHOP

6-8 OCTOBER 2020 – 18:00-20:00 (BST)

TO REGISTER, PLEASE VISIT:

<https://fsreg.com/detecting-money-laundering-real-case-studies/>

During the workshop, participants will analyse the following 8 real-life money laundering cases in an interactive discussion with our Managing Director Giuseppe Giusti (<https://www.linkedin.com/in/giuseppe-giusti-5a68a85b/>).

1. THE PRIVATE EQUITY FUND

A German lawyer with whom you have worked in the past calls you one day. He asks whether he can refer to you a client of his who is looking to establish a private equity fund in the UK.

You arrange a meeting with the client. The client is pleasant and professional. He explains to you that he has been working as a financial advisor in Germany for several years mainly investing the money of a well-known high-net worth family into listed shares and bonds. He adds that he now wishes to invest approximately Euro 20m of the family's money into private equity assets to diversify the family's investment portfolio.

You perform a due diligence on the client. It is unclear whether he holds any licence to operate as a financial advisor in Germany. You ask him the question and he tells you that he does not hold any licence because effectively he only has one client (i.e. the family). This is of course not ideal but by no means unusual. When you tell the client that he may need to obtain a licence in order to operate a private equity fund in the UK, he tells you that he does not envisage any issues in obtaining that licence if needed.

The client is later arrested for fraud. The German authorities claim that he has stolen the family's money pretending that it had been invested in UK listed shares and bonds.

Question: Why was this client looking to establish a private equity fund?

2. SHIPPING CONTAINERS

You are contacted by a Hong Kong lawyer who would like you to advise on the regulatory aspects of marketing in the UK an investment product which has been marketed in Hong Kong and other South-East Asian countries for some time.

The lawyer explains that his client operates an investment scheme whereby retail investors provide an amount of money which is used by the scheme promoter to buy one or more shipping containers which are then leased to shipping companies. The lease instalments (less a commission) are then paid to the investors and typically generate a return of between 5% and 7% per annum.

The lawyer tells you that the client does not require a financial services licence to operate in Hong Kong given that the money paid by the investors is not pooled into a vehicle and each investor becomes instead the individual owner of the ship container, as evidenced by an ownership certificate that is provided to each investor after the investment has been made.

The lawyer adds that he has been advising this client for several years and, to the best of his knowledge, investors have always received their money back and he has no reason to suspect that the scheme might be fraudulent.

The Hong Kong lawyer seems diligent enough and works for what appears to be a well-established Hong Kong law firm.

Question: What questions can you ask to determine whether this scheme is legitimate?

3. THE BATTERIES TECHNOLOGY FUND

A contact of yours who runs a small asset management consultancy calls you one day. He tells you that he has been contacted by the manager of an investment fund based in Australia who would like to engage his firm

to market the fund to UK based investors and/or establish in the UK a parallel fund having the same characteristics as the Australian fund.

He explains that, in summary, the fund managed by this manager issues to professional, sophisticated and accredited investors units having debt-like features which, depending on the chosen maturity, provide to the investors a target return of between 3% (for a 12 months' maturity) and 6% (for a 3 years' maturity) per annum. The money raised is then invested to provide equity capital to start-ups operating in the batteries technology R&D sector.

He tells you that, even though he has not heard of this manager before, he has no reason to suspect that something might be illegitimate. This is because his due diligence has shown that:

- (1) the fund is operated by a third-party manager duly authorised in Australia;
- (2) the fund has been running for almost two years and its marketing documentation states that during such period it has raised more than USD 75 million, has experienced an investor redemption rate of less than 10%, and has never defaulted to investors;
- (3) there are plenty of positive online reviews and testimonials from individuals who have invested in the fund confirming that the fund has never defaulted, praising the fund manager for the excellent customer service and stating that the rate of return offered by the fund is much better than the rate of return offered by equivalent fixed-term deposits offered by banks.

Question: Are there any red flags that you should raise to your contact?

4. FCA AUTHORISATION

A colleague of yours calls you one day to say that he has been contacted by a potential client who wishes to become authorised by the Financial Conduct Authority (FCA) and, given that this is not his area of expertise, he would like to refer the client to you.

You accept the referral and, after a brief introductory call, arrange to meet the client at his offices. The client explains that he is from the United Arab Emirates (UAE) but has been a long-time UK resident. He tells you that he is an entrepreneur who runs two small businesses. The first is a professional consultancy that supports UK investor VISA applications. The second is a property finder business. Both businesses target a Middle Eastern clientele of high-net-worth individuals.

Both businesses have their own decent websites, are run from good quality serviced offices in central London and the client and his assistant appear competent and professional.

You ask the client why he wishes to become FCA authorised. He says it is to give his business the ability to market to UK investors a new USD 100m oil development project in the UAE which his company has just signed up to.

He shows you a very nice-looking brochure describing the project and explains that the project is a 50:50 joint venture between the government of the UAE and his company.

You explain that the process of becoming FCA authorised is rather demanding and would require him to provide to the FCA a substantial amount of information and supporting evidence. He says that he is aware of that and it would not be a problem for him to do so.

Question 1: What steps can you take to verify the client's story?

Question 2: If the client is not legitimate, why would they want to apply to the FCA to become authorised? Surely the FCA would discover that something is not quite right as part of its due diligence on the applicant.

5. THE CRYPTOCURRENCY LAUNCH

At a cryptocurrency event, you meet a US-based cryptocurrency trader who asks you whether you would be able to assist him to launch a new token which he wishes to market internationally to property developers.